Teachers' Pension Plan Board
Conseil du régime de retraite des enseignantes et des enseignants



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# EXCHANGE

A NEWSLETTER FOR MEMBERS OF THE ONTARIO TEACHERS' PENSION PLAN

*How the pension fund has fared*

## Amidst market turmoil

How does the drop in the markets affect the value of pension plan investments? What is the plan's surplus now? Is the government still making special payments? Has market volatility affected our investment strategy? These are four investment-related questions we've recently heard most often from teachers. Let's take each of these in turn.

**THE MARKET AND YOUR PENSION PLAN**

The plan remains fully funded, with more than enough assets to cover the cost of all pensions promised.

The plan's assets are primarily stocks and bonds, which can, in the short term, fluctuate widely. The markets caused the pension plan's assets to rise sharply during the first six months of the year. Since then, market declines eliminated the earlier gains. At the end of the third quarter, the pension plan's net assets were $54 billion, slightly below the $54.5 billion we reported at the end of 1997.

*Smoothing reserve*

One way to cushion the effects of market volatility on the surplus is to use a smoothing reserve. Like many pension funds, we spread the annual change in assets over five years to level out the short-term swings in the value of our investments. This means that when fund value rises, we put some of what we earn into the smoothing reserve, and if the fund value drops, we draw from the reserve to lessen the impact. The reserve smoothes the gains over time, and absorbs short-term market volatility. At the beginning of the year, the smoothing reserve was $5.6 billion.

*Continued on page 3*

## YOUR PENSION UNCHANGED BY LEGAL STRIKE

Your pension is not affected during a legal strike or lockout. Your employer reports a loss of salary, but not your absence. This means you do not lose credit during a strike. If a strike occurs in one of your best-five years, you or your federation can make up the loss of salary.

There is no provision in the plan to cover work stoppages other than a legal strike or lockout. During an illegal work stoppage, you lose credit and are ineligible to contribute to your pension for the absence.

**INSIDE THIS ISSUE**

## HAVE *Your* SAY...

**FALLING LOONIE**

*"...how has the sliding Canadian dollar affected the pension fund?"*

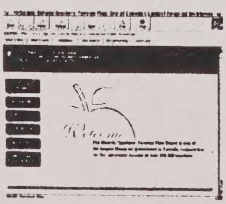
C. H., *Toronto*

In the short term, a lower Canadian dollar means our foreign holdings are worth more. For instance, since about one-third of our investments are outside Canada (and our policy is to hedge 50% of our currency exposure), a 1% drop in the Canadian dollar means the fund gains about $100 million.

## WEB SITE UPDATE

ave you visited our web site? We've had over 120,000 hits on our website since last March. If you haven't, here are some tips:

- For information about our investment objectives, assets and asset mix, click on the "Financial Summary" button on the home page
- For the latest news from the Teachers' pension plan, such as the most recent news release, click on "Overview/News"
- For information about types of pensions, how to begin collecting your pension, employer-approved leaves and frequently asked questions, click on "For Teachers"



We're always interested in your feedback. Please e-mail your comments.

# 85-factor window yields 6,000 additional retirees

he 85-factor window made it possible for an extra 6,000 teachers to retire this summer with an unreduced pension. In all, a total of 10,000 teachers, more than twice the usual number, have started their pensions so far this year.

We expect the number of teachers retiring to return to typical levels during the next three years. In 2002, the final year of the window, the number of teachers retiring is expected to rise sharply. About 4,650 teachers retired in 1997.

**ANTICIPATED THE IMPACT**

Processing pension estimates for 14,000 eligible teachers in less than a month and ensuring 10,000 new retirees received their pensions required anticipation and planning. Work preparing the data and the review of member files began in earnest late last year amidst growing rumours of a possible 85-factor deal.

The preparatory work ensured that every teacher eligible to retire with the 85-factor benefit received information quickly to help them with their decision. Information about the agreement was posted on the Teachers' pension plan web site almost immediately. We faxed a bulletin to schools within 48 hours, and a special issue of *Exchange* explaining the deal and the retirement process was mailed to teachers within seven days. Teachers eligible to retire with an unreduced 85-factor pension received a pension estimate and a retirement application form within 21 days of the announcement.

Quick Facts

## NEWLY RETIRED TEACHERS

eachers who retired in 1998 with unreduced pensions were, on average, 56 years of age, had 30 years of credit and 32.5 qualifying years, and collected an average annual pension of $38,000.

**NEW PENSIONERS (FROM JANUARY 1 TO AUGUST 31)**

| ***RETIREMENT BY GROUPS*** | ***1998*** | ***1997*** |
|---|---|---|
| ***Unreduced 85 to 89 factor pensions*** | ***6,150*** | — |
| ***90 factor pensions OR age 65 OR 35 years of credit*** | ***2,950*** | ***2,850*** |
| ***Reduced pensions, minimum age 55*** | ***1,050*** | ***1,500*** |
| ***TOTALS*** | ***10,150*** | ***4,350*** |

(Numbers have been rounded to the nearest 50)

*How the pension fund has fared*

# Amidst market turmoil

*Continued from page 1*

**SURPLUS?**
The Teachers' pension plan has a $3.6 billion surplus as at September 30, 1998. This is down from $4.4 billion at the end of 1997.

**SPECIAL PAYMENTS CONTINUE?**
The agreement negotiated between the OTF and the Ontario government in April stipulates that the actuarial valuation next January will determine when the government can stop making special payments to the unfunded liability. The government will continue to make special payments until the actuarial gains are sufficient to eliminate the initial unfunded liability.

**WILL WE CHANGE OUR STRATEGY BECAUSE OF MARKET VOLATILITY?**
Our investment strategy is aimed at the long term. Since market volatility is an expected short-term event, there is no reason to change our investment strategy.

The market fluctuations we've seen since July are short-term results. A better indicator of long-term performance is the average rate of return over four or more years. During the eight years since the pension plan began investing in the open market, the fund has grown by an average of 13.4% per year. In 1990, the plan's assets were $17 billion; today they have grown to about $54 billion.

## FROM A LONG-TERM PERSPECTIVE

- If you had invested $1,000 in the TSE 300 on April 22, 1998, it would have been worth $794 on October 30.
- If you had invested five years ago, it would have been worth $1,459.
- But if you had invested 10 years ago, it would have been worth $1,828.

TSE 300 Price Index 1978 to October 1998

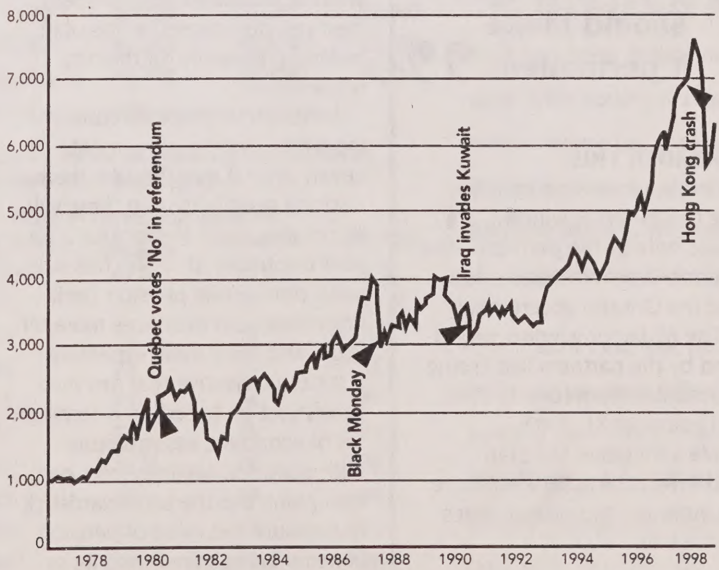



Chart courtesy of Scotia Capital Markets Quantitative Strategy

DUDLEY DOOMSAYER

> **85-factor window? Big deal. The pension plan should make it permanent.**

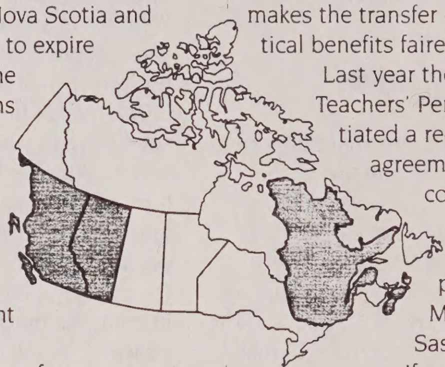
**CONSIDER THIS:**
Changes to pension benefits, like the 85-factor window, are made only by the partners—the Ontario Teachers' Federation and the Ontario government.

The 85-factor window negotiated by the partners last spring is available from June 1, 1998, to December 31, 2002.

We administer the plan and invest the assets. We have no authority to make changes to the plan.

# Transfer agreement with Alberta, B.C., Nova Scotia, Quebec expires Dec. 31

eciprocal transfer agreements with teacher pension plans in Alberta, B.C., Nova Scotia and Quebec are set to expire at the end of the year. This means that if you have pension credit with any of these plans, there may be no better time than the present to transfer it.



Reciprocal transfer agreements stipulate the rules for transferring credit from one pension plan to another. The agreements allow teachers who have taught in another province to consolidate their pension assets in one plan, making it possible for them to retire sooner.

Although discussions concerning a new transfer agreement began several months ago, there is a strong possibility that there will be no agreement in place for a time after December 31, 1998. This will make transferring pension credit from these four provinces more difficult, and likely more expensive.

It's our objective that any new agreement be based on a common set of economic assumptions. With common assumptions, pension plans use the same yardstick to measure the value of pension benefits being transferred in, or out, of the plan. The use of common economic assumptions reduces the differences in variables and makes the transfer of similar or identical benefits fairer for teachers.

Last year the Ontario Teachers' Pension Plan negotiated a reciprocal transfer agreement based on common economic assumptions with teachers' pension plans in Manitoba and Saskatchewan.

If you're interested in transferring credit from Alberta, B.C., Nova Scotia or Quebec, call us now and ask to speak to a Pension Benefit Specialist. ■

## CONTENT OF FAMILIAR BROCHURE REVISED

ncluded with this issue of *Exchange* is the latest version of *Your Pension Plan Guide*. The July 1998 edition includes the most recent plan changes. We've also added a glossary of pension terms. Keep your guide for easy reference, and refer to it first when you have questions about your pension benefits. ■

**PRINTING COST? 50¢ a copy**

# Quick tip for estimating your pension

*Determining your pension income is as easy as doubling your credit.*

**TIP**

- **Multiply your accumulated credit by two, add a percent sign**
  **This is your estimated pension as a percentage of your average best five years' salary**

***Example:***

Patricia's best-five years' salary is $60,000 and she has accumulated 32 years of credit. Therefore, her pension will be 64% (2 x 32) of her average best-five years' salary. Patricia can determine the dollar amount of her pension by taking the equation ***one step further:***

- **Multiply $60,000 by 64% ($60,000 x 0.64).**

Patricia's pension before age 65 will be $38,400.

**ESTIMATED PENSION INCOME (before income tax deductions)**

unreduced 85-factor pension reduced pensions

Calculations are based on an average best-five year salary of $60,000

| CREDIT | AGE 54 | 55 | 56 | 57 | 58 |
|---|---|---|---|---|---|
| 26 | not available | $28,080 | $28,860 | $29,640 | $30,420 |
| 27 | not available | 29,970 | 30,780 | 31,590 | **$32,400** |
| 28 | not available | 31,920 | 32,760 | **$33,600** | 33,600 |
| 29 | not available | 33,930 | **$34,800** | 34,800 | 34,800 |
| 30 | not available | **$36,000** | 36,000 | 36,000 | 36,000 |
| 31 | **$37,200** | 37,200 | 37,200 | 37,200 | 37,200 |
| 32 | 38,400 | 38,400 | 38,400 | 38,400 | 38,400 |
| 33 | 39,600 | 39,600 | 39,600 | 39,600 | 39,600 |
| 34 | 40,800 | 40,800 | 40,800 | 40,800 | 40,800 |
| 35 | 42,000 | 42,000 | 42,000 | 42,000 | 42,000 |

For the purpose of this table, years of credit and qualifying years are equal.

*** ESTIMATED PENSION INCOME (after income tax deductions) as a percentage of your current take-home pay**

| CREDIT | BEST FIVE-YEARS' SALARY 50,000 | 55,000 | 60,000 | 65,000 | 70,000 |
|---|---|---|---|---|---|
| 26 | 68% | 67% | 67% | 66% | 66% |
| 27 | 70 | 69 | 69 | 68 | 68 |
| 28 | 72 | 71 | 71 | 70 | 70 |
| 29 | 73 | 73 | 73 | 72 | 72 |
| 30 | 75 | 75 | 75 | 74 | 74 |
| 31 | 77 | 77 | 77 | 76 | 76 |
| 32 | 79 | 79 | 79 | 78 | 78 |
| 33 | 81 | 81 | 80 | 80 | 80 |
| 34 | 83 | 83 | 82 | 82 | 81 |
| 35 | 85 | 85 | 84 | 84 | 83 |

Based on 1998 income taxes, with basic person exemption. Does not include other taxable income and medical insurance premiums.

*Another great* **TIP...**

FOR MORE ON ESTIMATING YOUR PENSION, VISIT THE WEB SITE **www.otpp.com**

## * *YOUR* TAKE-HOME PENSION

You'll have fewer deductions when you retire. While working you have deductions for income tax, employment insurance, pensions, federation dues and long-term disability. When you retire your only deduction may be for income tax.

From Patricia's example, her estimated *before-tax* pension is 64% of her average best-five years' salary. If we compare Patricia's *after-tax* pension to her after-tax salary, her pension is almost 80% of her current take-home pay. Use the chart to estimate your take-home pension.

# Benefit improvement means reduced RRSP room in '99

f you plan to contribute to an RRSP next year, be aware that for most teachers, the available contribution room for 1999 will be reduced by about $2,200.

The CPP reduction factor used to calculate your teachers' pension after age 65 will be lowered to 0.6% from 0.68%, beginning January 1, 1999. This benefit enhancement was announced with the 85-factor window and reported in a recent special issue of *Exchange* (April 1998).

The lower CPP reduction means at age 65 your teachers' pension will be larger than before 65. The lower CPP reduction can add up to $950 to your pension every year after age 65.

The lower CPP reduction is a benefit improvement and will create a reduction to your RRSP contribution room beginning in 1999.

**HOW THIS MAY AFFECT YOU**

If you plan to maximize your RRSP contribution for 1999, you'll need to allow for reduced contribution room to avoid overpayment and a possible penalty.

We will issue an Exempt Past Service Pension Adjustment (PSPA) to you next autumn which indicates the amount of the reduction to your RRSP room as a result of this benefit improvement.

The Exempt PSPA is issued after your 1998 earinings are reconciled with information from your employer. This is typically done during the summer.

## *What* is PENSION CREDIT *and how is it used*

redit is the actual time of your teaching career, and is used to determine the amount of your pension. There are two variables that determine the amount of your pension—credit and your average best-five years' salary. The greater your accumulated credit, the larger your pension.

Use the following formula to estimate your pension

2% x credit x average best-five *equals* annual pension to age 65.

## PENSION PRESENTATIONS IN YOUR REGION

hether you're months or years from collecting your pension, the OTF retirement workshop provides useful information to help you prepare for retirement. A team of Pension Benefit Specialists will also be there to give you an overview of the pension plan and to provide personal interviews. For more information, contact your federation or association.

*Workshop Schedule*

| | |
|---|---|
| Nov. 27-28 | Simcoe |
| Jan. 15-16 | Toronto |
| Jan. 29-30 | Oshawa |
| Feb. 12-13 | Niagara Falls |
| Feb. 26-27 | Mississauga |
| April 9-10 | London |
| April 23-24 | Huntsville |


**EXCHANGE**

is a publication prepared by the Ontario Teachers' Pension Plan Board. We welcome your comments and suggestions. Feel free to call John Cappelletti at (416) 730-5351 or 1-800-668-0105, or fax at (416) 730-6338 or write to:



**Communications Department**
**Ontario Teachers'**
**Pension Plan Board**
**5650 Yonge Street**
**Toronto, Ontario M2M 4H5**

**OFFICE HOURS**
Monday to Friday, 8:00 am to 5:30 pm

**TELEPHONE**
(416) 226-2700 or 1-800-668-0105

**E-MAIL**
member_inquiry@otpp.com

**WEB SITE**
www.otpp.com





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